

Message Text

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ACTION SNM-02

INFO OCT-01 NEA-10 ISO-00 AID-05 IGA-02 EB-08 L-03
/031 W

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FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC PRIORITY 3444

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FOR DEPT. STATE, S/NM
PASS AID, SER/INC

E.O. 11652: N/A
TAGS: SNAR, PK
SUBJ: REQUEST FOR FY 77 FUNDING FOR INCOME SUBSTITUTION RESEARCH
PROJECT

1. SUMMARY BEGINS: MISSION IS IN ADVANCED STAGES OF WORKING OUT A SMALL SCALE EXPERIMENT TO TEST THE FEASIBILITY OF OPERATING A TOBACCO FOR POPPIES SUBSTITUTION PROGRAM THROUGH A COMMERCIAL ORGANIZATION IN THE MERGED AND TRIBAL AREAS OF THE NWFP. MISSION AND GOP ATTEMPTING TO FINALIZE PROJECT AGREEMENT BY SEPTEMBER 1, 1977, WITH A RESEARCH GRANT EXECUTED WITH THE PAKISTAN TOBACCO COMPANY (A COMMERCIAL ORGANIZATION) BY OCTOBER 1, 1977, TO ALLOW TESTING OF THE MODEL DURING THE COMING POPPY SEASON. THE PROPOSAL DESCRIBED BELOW REPRESENTS CURRENT THINKING AND WILL BE SUBJECT TO FURTHER REFINEMENT BY MISSION AND GOP. MISSION REQUESTS THAT STATE S/NM RESERVE DOLS275,000 OF FY 1977 FUNDS FOR ANTICIPATED OBLIGATION FOR USAID/P ON OR ABOUT SEPTEMBER 1, 1977. END SUMMARY.

2. BACKGROUND

A. LEGAL SITUATION:- THE LEGAL SITUATION IN THE POPPY GROWING AREAS OF THE NWFP HAS COMPLICATED THE PROCESS OF DEVELOPING INCOME SUBSTITUTION PROJECTS IN PAKISTAN. THE NWFP IS DIVIDED INTO SETTLED, MERGED AND TRIBAL AREAS. ALL OF PAKISTAN
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LAWYERS APPLY TO THE SETTLED AREAS AND THE GOP ATTEMPTS TO ENFORCE THEM. SOME OF PAKISTAN LAWS (INCLUDING NARCOTICS LAWS) HAVE BEEN APPLIED TO THE MERGED AREAS BUT TO DATE THE GOP HAS BEEN RELUCTANT TO ATTEMPT TO ENFORCE THEM. NONE OF PAKISTAN'S TRIBAL AREAS AND THE GOP HAS NEITHER THE AUTHORITY NOR THE CAPABILITY TO DO ANYTHING ABOUT OPIUM IN THE TRIBAL AREAS. ALTHOUGH THE LAW DOES NOT APPLY IN TRIBAL AREAS AND

IN NOT VIGOROUSLY ENFORCED IN MERGED AREAS THERE IS NOTHING TO PRECLUDE COMMERCIAL OPERATIONS IN THESE AREAS BY PAKISTANI CORPORATIONS. THEREFORE, PAKISTANI CORPORATIONS ARE CURRENTLY PURSUING THEIR COMMERCIAL OBJECTIVES IN THE TRIBAL AREAS DESPITE THE FACT THAT THEY DO NOT HAVE THE PROTECTION OF THE LAW.

B. NATURE OF POPPY PRODUCTION :- DURING THE CY 1976/1977 POPPY SEASON IT IS ESTIMATED THAT 15,000 OUT OF AN ESTIMATED POTENTIAL OF 98,000 ACRES IN THE POPPY AREA, WAS ACTUALLY IN POPPIES. THE NATURE OF POPPY PRODUCTION IS SUCH THAT IN MOST OF THE POPPY GROWING AREAS NO MORE THAN 10 PERCENT OF THE LAND IS PLANTED IN POPPIES, HOWEVER, IN MOST CASES IT IS NOT THE SAME 10 PERCENT EACH YEAR. THEREFORE, IN DEVELOPING INCOME AND CROP SUBSTITUTION PROJECTS THEY CANNOT BE AIMED AT THE 15,000 ACRES, WHICH IS CONTINUALLY CHANGING, BUT MUST BE AIMED AT ALL OF THE FARMERS OF THE POTENTIAL 98,000 ACRES. ADDITIONALLY, BECAUSE OF THE DRAMATIC INCREASE THIS YEAR IN THE PRICE OF RAW OPIUM IT IS ANTICIPATED THAT THE TOTAL POPPY ACREAGE WILL INCREASE IN THE COMING CROP SEASON.

C. RATIONALE FOR SELECTING TOBACCO INDUSTRY:- THE TOBACCO INDUSTRY WAS SELECTED BECAUSE THERE IS SUFFICIENT GOVERNMENTAL (PAKISTAN TOBACCO BOARD) AND COMMERCIAL (PAKISTAN TOBACCO COMPANY) INFRASTRUCTURE PRESENTLY IN PLACE TO ALLOW FOR EASE AND TIMELINESS IN CARRYING OUT THE RESEARCH PROJECT. THE PROJECT WILL BE UNDER THE JOINT SPONSORSHIP OF THE PAKISTAN NARCOTICS CONTROL BOARD (PNCB), AND THE PAKISTAN TOBACCO BOARD (PTB) AND WILL BE IMPLEMENTED BY ONE OF PAKISTAN'S LARGEST PRIVATE CORPORATIONS, THE PAKISTAN TOBACCO UNCLASSIFIED

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COMPANY. THE RESEARCH PROGRAM IS BUILT AROUND FLU CURED VIRGINIA TOBACCO WHICH IS GROWN ON IRRIGATED LAND. THE DEMAND FOR THIS TOBACCO IN PAKISTAN IS FAR GREATER THAN CURRENT SUPPLY. ADDITIONALLY TO GROW THIS TOBACCO A FARMER MUST INVEST IN A SPECIALLY CONSTRUCTED DRYING BARN WHICH REPRESENTS A CONSIDERABLE INVESTMENT ON HIS PART. IT HAS BEEN THE EXPERIENCE OF THE TOBACCO COMPANIES THAT ONCE A FARMER HAS INVESTED IN A BARN HE WILL CONTINUE AS A TOBACCO FARMER IN ORDER TO PROTECT THAT INVESTMENT. (A DRYING BARN IS ECONOMICAL FOR AS LITTLE AS 2-1/2 ACRES OF TOBACCO.)

3. OBJECTIVES OF RESEARCH PROJECT

A) TO TEST THE FEASIBILITY OF OPERATING INCOME SUBSTITUTION PROJECTS IN THE MERGED AND TRIBAL AREAS THROUGH COMMERCIAL ORGANIZATIONS.

B) TO ASCERTAIN WHETHER TOBACCO IS AN ECONOMICALLY VIABLE SUBSTITUTE CROP FOR POPPIES IN IRRIGATED AREAS.

C) TO ASCERTAIN IF SMALL SUBSIDIES PROVIDED TO FARMERS THROUGH A COMMERCIAL ORGANIZATION CAN BE USED TO MOVE FARMERS OUT OF POPPY PRODUCTION.

D) TO MEASURE THE EFFECT OF AN ENFORCEMENT COMPONENT IN COMMERCIALLY OPERATED INCOME SUBSTITUTION PROJECTS.

4. SCOPE OF RESEARCH ACTIVITY

SIX AREAS HAVE BEEN SELECTED, THREE PROGRAM AREAS AND THREE CONTROL AREAS. THE THREE PROGRAM AREAS DURING THE CY 1976/77 POPPY SEASON CONTAINED APPROXIMATELY 570 ACRES OF IRRIGATED POPPIES. THE OBJECTIVES IN THE THREE PROGRAM AREAS ARE SLIGHTLY DIFFERENT, HOWEVER, IN TOTAL AN ATTEMPT WILL BE MADE TO INCREASE TOBACCO ACREAGE FROM 1,170 ACRES TO 2,760 ACRES AND MEASURE THE EFFECT ON POPPY ACREAGE. IT IS ANTICIPATED THAT POPPY ACREAGE CAN BE REDUCED BY 456 ACRES OR 80 PERCENT. THE CONTROL AREAS ARE SIMILAR CULTURALLY, ECONOMICALLY AND SOCIALLY TO THE PROGRAM AREAS WILL BE KEPT UNDER OBSERVATION TO DETERMINE WHAT CHANGES, IF ANY, TAKE PLACE IN THE AREAS WHICH ARE NOT BEING PROVIDED INCENTIVES.

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A) FIRST PROJECT - THIS IS AN ESTABLISHED TOBACCO AREA WHERE THE TOBACCO COMPANIES ARE NO LONGER ATTEMPTING TO EXPAND TOBACCO ACREAGE, SINCE DEVELOPMENT COSTS ARE CHEAPER IN OTHER AREAS. THE OBJECTIVE IN THIS PROJECT WILL BE TO SEE IF INCENTIVES WILL RESULT IN INCREASING DOUBLING TOBACCO ACREAGE AND TO MEASURE ANY POSSIBLE REDUCTION IN POPPY PRODUCTION. THE PROGRAM AREA IS IN THE SAM RANIZAI AREA OF THE MALAKAND PROTECTED AREA (MERGED IN 1969), SOUTH OF MALAKAND PASS NEAR DARGAI. THE CONTROL AREA IS LOCATED IN THE SWAT RANIZAI AREA OF THE MALAKAND PROTECTED AREA ON THE LEFT BANK OF SWAT RIVER NEAR THE VILLAGES OF KOPAR AND BADROGA.

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B) SECOND PROJECT - VIRTUALLY, NO TOBACCO IS GROWN IN THIS AREA ALTHOUGH THE POTENTIAL IS GREAT. THIS PROJECT WILL CONTAIN AN ENFORCEMENT COMPONENT WHICH WILL MAKE IT POSSIBLE TO COMPARE THE EFFECT OF AN ENFORCEMENT COMPONENT ON TOBACCO EXPANSION WITH A SIMILAR PROJECT (THIRD PROJECT PARA 4-C, BELOW) WHICH DOES NOT CONTAIN THE ENFORCEMENT COMPONENT. THE OBJECTIVE IN THIS PROJECT IS TO ESTABLISH THE AREA AS A TOBACCO AREA. FARMERS WILL NOT BE ALLOWED TO ENROLL IN THE PROGRAM AND RECEIVE THE BENEFITS UNLESS THEY SIGN A CONTRACT WITH THE PNCB STATING THAT THEY AGREE NOT TO GROW POPPIES ON THEIR LAND FOR THREE YEARS. THE PROGRAM AREA IS IN THE FORMER DIR STATE (MERGED AREA) AND IS LOCATED ALONG THE CHAKDARA ROAD ON THE RIGHT BANK OF THE SWAT RANIZAI AREA OF MALAKAND, NORTH WEST OF THE MALAKAND PASS.

C. THIRD PROJECT - THE OBJECTIVE OF THIS PROGRAM IS TO TEST THE FEASIBILITY OF OPERATING COMMERCIAL INCOME SUBSTITUTION PROJECTS IN TRIBAL AREAS (AT THE PRESENT TIME THE GOP WOULD NOT CONSIDER A DIRECT GOVERNMENT OPERATED PROJECT IN A TRIBAL AREA.) THIS PROJECT AND THE AREA IS SIMILAR TO THE SECOND PROJECT EXCEPT THAT THE AREA IS TRIBAL AND THE PROGRAM DOES NOT CONTAIN AN ENFORCEMENT COMPONENT. THE PROGRAM AREA IS IN MOHMAND AGENCY (TRIBAL) AND IS LOCATED IN THE BUCHA AREA. THE CONTROL AREA IS ALSO LOCATED IN THE MOHMAND AGENCY AND IS NORTH OF SHABQADAR ON THE LEFT BANK OF THE KABUL RIVER.

5. ESTIMATED TOTAL ARABLE ACREAGE AND CROPPING PATTERN
OF THE PROJECT AREAS 1976/1977 (SOURCE: PTC RECORDS)
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CROP	AREA I	AREA II	AREA III	PROGRAM CONTROL	PROGRAM CONTROL	PROGRAM CONTROL
TOBACCO	780	1800	90	820	300	900
SUGARCANE	650	630	-	-	350	1500
GRAINS) IRRIG.						
)NON-IRRIG.	800	1900	250	400	600	1700
	1000	2600	1300	1600	650	
ORCHARDS	1500	120	60	30	40	150
VEGETABLES	800	50	30	20	25	60
POPPY)IRRIG.	250	370	80	80	240	230
)NON-IRRIG.	50	180	212	250	260	160
MISC. CROPS	300	50	20	30	20	50
UNCULTIVATED (PASTURE AND NON-ARABLE)	2500	2000	3200	1800	600	980

TOTAL ACREAGE:	7630	8100	7542	4730	4035	6380

6. PROJECT INPUTS AND ESTIMATED COST

A) TOBACCO COMPANY - THROUGH THE TOBACCO COMPANY THE FARMER WILL BE PROVIDED WITH SMALL SUBSIDIES TO ASSIST HIM IN

ESTABLISHING HIMSELF AS A TOBACCO FARMER. THESE SUBSIDIES WILL
CONSIST OF SUCH ITEMS AS A SUBSIDIZED AND GUARANTEED LOAN THROUGH
A BANK FOR TOBACCO BARN CONSTRUCTION, SEEDLINGS, FERTILIZER,
INSECTICIDE SPRAYER, AND PAYMENTS (AT COST) FOR PLOUGHING UNDER
EXISTING CROPS AND SUBSTITUTING TOBACCO. WHILE WE ARE
AIMING AT POPPIES, THERE IS A POSSIBILITY THAT WHEAT
COULD BE THE OPPORTUNITY CROP. WE SHALL ATTEMPT TO
SEE THAT POPPIES ARE THE CROP PLOWED UNDER. HOWEVER,
IF WE OPENLY ANNOUNCE AN ANTI-POPPY EFFORT WE
ENCOURAGE POPPY PRODUCTION IN THE HOPE OF FUTURE
PAYOFFS TO GET OUT OF POPPIES. TOBACCO COMPANIES ARE
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CURRENTLY PROVIDING THE ABOVE FACILITIES TO FARMERS IN
THEIR PRIORITY DEVELOPMENT AREAS.

COST ESTIMATE - TOBACCO COMPANY

INCENTIVES TO FARMERS (DOLS75 PER ACRE) DOLS211,000
SALARIES OF TOBACCO CO.PERSONNEL DOLS22,000
OPERATING EXPENSES DOLS12,000
EQUIPMENT (LOCAL PURCHASE) DOLS20,000

DOLS265,000

THE TOBACCO COMPANY'S GRANT FROM USAID WILL DIRECT THEM
TO FOCUS THEIR SUBSTITUTION EFFORT ON POPPY FARMERS.

B) PAKISTAN TOBACCO BOARD (PTB) - THE PTB WILL DO
SOIL, PLANT, INSECT, AND PLANT DISEASE RESEARCH IN THE
TWO AREAS WHERE TOBACCO IS TO BE ESTABLISHED AS A MAJOR
CROP AND WILL ADVISE THE TOBACCO COMPANY AND FARMERS
ON FERTILIZER, INSECTICIDES, BEST POSSIBLE SUMMER CROP
(SECOND CROP) AND BEST POSSIBLE POTENTIAL CROP AFTER
TWO OR THREE YEARS. THIS WILL INSURE THAT SUFFICIENT
INFORMATION IS AVAILABLE TO THE FARMERS TO ENABLE THEM
OVER THE LONG RUN, TO CONTINUE AS SUCCESSFUL TOBACCO
FARMERS.

COST ESTIMATE - PTB

PROGRAM AREA II (MERGED) DOLS5,000
PROGRAM AREA III (TRIBAL) DOLS5,000

DOLS10,000

7. STATUS OF PROJECT NEGOTIATIONS

PROJECT DESIGN IS IN FINAL STAGES. DURING THE
LAST WEEK USAID/P AND EMBASSY DISCUSSED PROPOSED
RESEARCH PROJECT WITH THE CHAIRMAN AND DIRECTOR OF
PLANNING OF THE PAKISTAN NARCOTICS CONTROL BOARD (PNCB),
THE CHAIRMAN OF THE PAKISTAN TOBACCO BOARD (PTB), AND
THE GENERAL MANAGER AND THE REGIONAL MANAGER FOR LEAT
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PRODUCTION AND DIRECTOR OF RESEARCH OF THE PAKISTAN TOBACCO COMPANY (PTC) TO ASCERTAIN THEIR INTEREST IN ATTEMPTING TO LAUNCH THE PROGRAM PRIOR TO THE CY 1977/1978 POPPY SEASON. ALL PARTIES AGREE THAT DESPITE THE SHORT PERIOD AVAILABLE FOR EXECUTING A PROAG AND GRANT, AN ATTEMPT SHOULD BE MADE TO COMPLETE PAPERWORK AND TEST THE MODEL DURING UPCOMING POPPY SEASON. IT IS THEREFORE REQUESTED THAT DOLS275,000 BE RESERVED FOR OBLIGATION BY USAID/P IN EARLY SEPTEMBER 1977.
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Message Attributes

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TAGS: SNAR, PK
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